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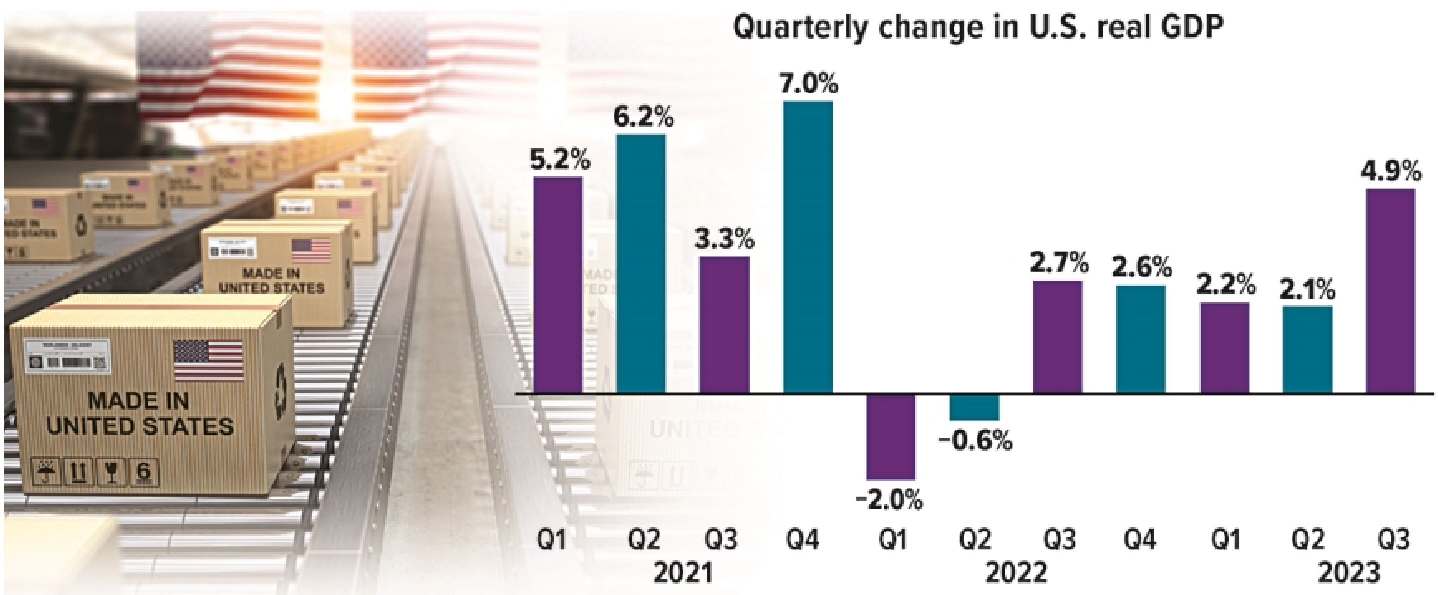
Economy Staying Strong

After a worrisome decline in the first half of 2022 — which sparked fears of a recession — U.S. inflation-adjusted gross domestic product (real GDP) has grown steadily. The third quarter of 2023 showed the strongest growth since the post-pandemic bounceback.

Current-dollar (nominal) GDP measures the total market value of goods and services produced in the United States at current prices. By adjusting for inflation, real GDP provides a more accurate comparison over time, making its rate of change a preferred indicator of the nation's economic health.



Source: U.S. Bureau of Economic Analysis, 2023 (seasonally adjusted at annual rates; Q3 2023 based on advance estimate)

Q4 2023 Market Overview

As 2023 drew to a close, there were some positives to consider upon entering the New Year. The GDP expanded at a greater-than-expected pace in the third quarter, and crude oil and gas prices reversed course and dipped lower. The Consumer Price Index and the personal consumption expenditures price index trended lower at the end of the year. If interest rates decrease, borrowing will be available to more consumers, which should help the housing sector. Stocks enjoyed a solid bounce back in 2023. If corporate earnings continue to rebound, that would bode well for stocks in 2024.

Last Month's Economic News

- **Employment:** There were 218,000 initial claims for unemployment insurance for the week ended December 23, 2022. During the same period, the total number of workers receiving unemployment insurance was 1,875,000.
- **FOMC/interest rates:** The Federal Open Market Committee maintained the target range for the federal funds rate at the current 5.25%-5.50% following its December meeting. The Committee noted that the economy had slowed and that inflation remained elevated. The Committee's projections indicate the possibility of three 25.0-basis point decreases in 2024.
- **GDP:** The economy accelerated at an annual rate of 4.9% in Q3. Consumer prices increased 2.6% in Q3 (2.5% in Q2). Excluding food and energy, consumer prices advanced 2.0% in Q3 (3.7% in Q2).
- **Inflation/consumer spending:** Consumer prices rose 2.6% since November 2022, while core prices increased 3.2%. Since last November, energy prices decreased 5.4%, while food prices rose 2.9% and shelter prices advanced 6.5%. Gas prices dropped 8.9% over the last 12 months, while fuel oil prices fell 24.8%.
- **Oil:** Crude oil prices peaked at about $93.68 in late September. Since then, crude oil prices have steadily declined despite cuts by OPEC+ and the Israel/Hamas conflict. Prices at the pump capped at $3.878 per gallon in mid-September, then declined for the remainder of the year to $3.116 on Christmas day.
- **Gold:** Gold hit a record high of $2,152.30 near the end of 2023. In September prices headed to below $1,800.00 per ounce. The Hamas attacks in October sent gold prices past $2,000.00 at the end of the year.
- **Housing:** Sales of existing homes increased 0.8% in November, marking the first monthly increase in the last six months. Existing home sales dropped 7.3% from November 2022.
- **Manufacturing:** For the 12 months ended in November, manufacturing increased 1.3%, utilities advanced 3.5%, while mining declined 0.4%. Transportation equipment led the November increase, advancing 15.3%.
- **Imports and exports:** Both import and export prices declined in November. Import prices fell 0.4% in November after decreasing 0.6% in October, the first one-month declines since June 2023.
- **Consumer confidence:** Consumers ended 2023 with a surge in confidence and optimism for 2024. The Conference Board Consumer Confidence Index® increased in December to 110.7, following a 101.0 reading in November.
- **Equities:** Stocks began 2023 on a positive note and ended trending higher. The Nasdaq ended the year up more than 40.0%, the S&P 500 gained nearly 25.0%, and The Russell 2000 finished up by more than 15.0%. The DOW closed the year up by nearly 13.0%.
- **Bonds:** The 10-year yield reached an October high at about 4.9% but steadily fell the rest of the year, ending where they began the year. The Bloomberg Aggregate Bond Index, which had it's worst return in its history after declining nearly 13.0% in 2022, rose a little over 5.0% in 2023.

Eye on the Year Ahead

Will waning inflation and slowing job growth prompt the Federal Reserve to lower interest rates in 2024? And if interest rates decrease, what impact will that have on the bond and stock market? The ongoing conflict in the Middle East, coupled with a cut in production, could force oil and gas higher this year. Lastly, 2024 is an election year, the results of which will almost certainly impact the economy and Wall Street.

Will You Work Beyond Traditional Retirement Age?

More than seven out of 10 current workers in a recent survey said they expect a paycheck to play a role in their income strategy beyond traditional retirement age. In fact, 33% expect to retire at age 70 or older, or not at all.[1]

If you expect to continue working during your 60s, 70s, or beyond, consider the advantages and disadvantages carefully. Although working can enhance your retirement years in many ways, you may also face unexpected consequences, particularly when it comes to Social Security.

Advantages

There are many reasons why you may want to work during retirement. First and perhaps most obvious, a job offers a predictable source of income that can help pay for basic necessities, such as food, housing, and utilities.

Working may also allow you to continue saving on a tax-deferred basis through a work-based retirement savings plan or IRA. Traditional retirement accounts generally require you to take minimum distributions (RMDs) after you reach age 73 or 75, depending on your year of birth; however, if you continue working past RMD age, you can typically delay RMDs from a current employer's plan until after you retire, as long as you don't own more than 5% of the company. (Roth IRAs and, beginning in 2024, work-based Roth accounts do not impose RMDs during the account owner's lifetime.)

Moreover, employment can benefit your overall well-being through social engagement with colleagues, intellectual stimulation, and, if you're employed in a field that requires exertion and movement, mobility and fitness.

Working may also provide access to valuable health insurance coverage, which can supplement Medicare after the age of 65. Keep in mind that balancing work-sponsored health insurance and Medicare can be complicated, so be sure to seek guidance from a qualified professional.

A paycheck might also allow you to delay receiving Social Security benefits up to age 70. This will not only increase your monthly benefit amount beyond what you'd receive at early or full retirement age, it will add years of earnings to your Social Security record, which could further enhance your future payments.

If one of your financial goals is to leave a legacy, working longer can help you continue to build your net worth and preserve assets for future generations and causes.

Why Retirees Work

Source: Employee Benefit Research Institute, 2023 (multiple responses allowed)

Disadvantages

There are some possible drawbacks to working during retirement, especially regarding Social Security. For instance, if you earn a paycheck *and* receive Social Security retirement benefits before reaching your full retirement age (66–67, depending on your year of birth), part of your Social Security benefit will be withheld if you earn more than the annual Social Security earnings limit. However, the reduction is not permanent; in fact, you'll likely receive a higher monthly benefit later. That's because the Social Security Administration recalculates your benefit when you reach full retirement age and omits the months in which your benefit was reduced.

After reaching full retirement age, your paycheck will no longer affect your benefit amount. But if your combined income (as defined by Social Security) exceeds certain limits, it could result in federal taxation of up to 85% of your Social Security benefits.

Perhaps the biggest disadvantage to working during retirement is ... working during retirement. In other words, you're not completely free to do whatever you want, whenever you want, which is often what people most look forward to at this stage of life.

Finally, a word of caution: Despite your best planning and efforts, you may find that you're unable to work even if you want to. Consider that nearly half of today's retirees left the workforce earlier than planned, with two-thirds saying they did so because of a health problem or other hardship (35%) or changes at their company (31%).[2]

For these reasons, it may be best to focus on accumulating assets as you plan for retirement, viewing work as a possible option rather than a viable source of income.

1–2) Employee Benefit Research Institute, 2023

Enriching a Teen with a Roth IRA

Teenagers with part-time or seasonal jobs earn some spending money while gaining valuable work experience. They also have the chance to contribute to a Roth IRA — a tax-advantaged account that can be used to save for retirement or other financial goals.

Minors can contribute to a Roth IRA provided they have earned income and a parent (or other adult) opens a custodial account in the child's name. Contributions to a Roth IRA are made on an after-tax basis, which means they can be withdrawn at any time, for any reason, free of taxes and penalties. Earnings grow tax-free, although nonqualified withdrawals of earnings are generally taxed as ordinary income and may incur a 10% early-withdrawal penalty, unless an exception applies.

A withdrawal of earnings is considered qualified if the account is held for at least five years and the distribution is made after age 59½. However, there are two penalty exceptions that may be of special interest to young savers. Penalty-free early withdrawals can be used to pay for qualified higher-education expenses or to purchase a first home, up to a $10,000 lifetime limit. (Ordinary income taxes will apply.)

Flexible College Fund

A Roth IRA may have some advantages over savings accounts and dedicated college savings plans.

Colleges determine need-based financial aid based on the "expected family contribution" (EFC) calculated in the Free Application for Federal Student Aid (FAFSA).

Most assets belonging to parents and the student count toward the EFC, but retirement accounts, including a Roth IRA, do not. Thus, savings in a Roth IRA should not affect the amount of aid your student receives. *(Withdrawals from a Roth IRA and other retirement plans do count toward income for financial aid purposes.)*

Financial Head Start

Opening a Roth IRA for a child offers the opportunity to teach fundamental financial concepts, such as different types of investments, the importance of saving for the future, and the power of compounding over time. You might encourage your children to set aside a certain percentage of their paychecks, or offer to match their contributions, as an incentive.

In 2023, the Roth IRA contribution limit for those under age 50 is the lesser of $6,500 or 100% of earned income. In other words, if a teenager earns $1,500 this year, his or her annual contribution limit would be $1,500. Parents and other individuals may also contribute directly to a teen's Roth IRA, subject to the same limits.